CONTINENT

Continent Group Inc.

ANNUAL REPORT 1995

CONTINENT GROUP INC.

Directors' Report to Shareholders

On December 7, 1995, Continent Group Inc. "Continent" completed the acquisition of Pocotex Holdings Limited ("Pocotex"), Unitex Garment Factory Limited ("Unitex") and POPi Childrenswear Enterprises Inc. ("POPi Childrenswear"), giving birth to the POPi Canadian operations, a vertically integrated manufacturer, wholesaler and retailer of designer children's clothing and accessories for children from newborn to eight years of age.

Continent is a vertically integrated manufacturer, wholesaler and retailer of a complete line of designer children's clothing and accessories for children from newborn to eight years of age, with the majority of sales being of products for children in the newborn to four year range. Continent carries on its retail business operations under the POPi_{TM} banner.

Continent's products are designed for all seasons to be sold at reasonable prices and are distributed principally under the POPi_{TM} and mini car_{TM} trade names. All of Continent's products are made from high quality natural fiber fabrics, with the majority made from pure cotton. The clothing and accessories are offered in a wide range of colours and are designed to be stylish, comfortable, non-allergic, and durable.

Continent's long-term strategic goal is to establish itself as an international brand-named leader of the designer children's clothing industry, initially in Canada and thereafter in other markets such as United States, Hong Kong and the People's Republic of China. The primary objective of Continent's marketing activities is to enhance the brand name recognition of the POPi_{TM} and mini car_{TM} labeled products in order to strengthen Continent's competitive position in the market and to reduce the cyclical effects of the industry. Continent believes that this approach has been instrumental in enabling its retail operations to expand into new markets, and to successfully introduce new products into its existing outlets. Continent believes that the international market for designer children's clothing will continue to become more sophisticated and that Continent's competitors have yet to take action in the vast markets available. In the immediate term, a window of opportunity exists whereby Continent can use its reputation for style and quality to establish itself as a leader in these markets. The management of Continent believes that it will continue to achieve significant growth in the markets in which it presently operates.

BY ORDER OF THE BOARD OF DIRETORS

"signed"

Larry Yuen
President and C.E.O.

BUSINESS OUTLOOK

Continent has expanded rapidly and opened 12 more stores across Canada to a total of 16 stores since the acquisition. Continent's approach to the North American market is to expand its retail operation and establish a wholesale network with major department stores in Canada and United States. Management continues to explore growth opportunities within Canada and internationally.

The POPi and mini car Concept

The POPi$_{TM}$ and mini car$_{TM}$ labels are known for style, comfort, affordability, quality and durablity.

- ♦ Style - stylish designer children's clothing are designed specially infants and children with fun vibrant colours or soft pretty patterns by our team of European designers.
- ♦ Comfort - most of our products are made with 100% fully-combed cotton for non-allergic comfort.
- ♦ Affordability - management team with extensive experience in the industry sources competitive suppliers for best price and quality; and offers affordable prices to average consumers.
- ♦ Quality and Durability - clothes can stand up to repeated washing without losing their shape and colours.

Overall Business Strategy

It is Continent's intention to create an international chain of stores and outlets (initially in Canada, and thereafter into other markets such as Hong Kong, the People's Republic of China and the United States), which distributes and retails reasonably priced, high quality apparel and accessories for children from newborn to eight years of age.

To date, the business philosophy of Continent has been to establish its place and reputation in each geographic market based on the following factors:

- ***High Quality/Reasonable Prices*** - It is Continent's aim to provide its customers with high quality children's wear at reasonable prices. Continent designs its merchandise to be stylish, comfortable, functional and durable by using natural fibers (primarily pure cotton) and customizes the colours, style and themes of its own merchandise for each geographical market.

- ***Standardized Retail Locations*** - The size and type of locations of Continent's retail operations will vary from one geographical market to another but the theme and layout of the retail locations will be standardized within each geographical market. Within each geographical market, the decision to establish stand-alone retail locations or boutiques within department stores will depend upon such factors as the availability of high-traffic commercial space, the visibility of retail locations and leasing costs.

- ***Designing Own Merchandise*** - Continent designs its own merchandise to accommodate the specific tastes of each market. Continent offers a broad range of items with varying styles, themes and colours, rather than focusing on a few key items. A new line is offered each calendar quarter and in each of its retail locations Continent offers, on average, 100 different items.

- ***High-Level of Customer Service*** - The satisfaction of its customers is a top priority for Continent. Sales staff receive extensive training to ensure that customers receive knowledgeable and friendly advice on selection and outfit coordination. With a high-level of customer service, together with the "POPi Privilege Card" described under "Business of Continent - Marketing & Promotion", customers are encouraged to make multiple item purchases or return visits to POPi retail locations.

- ***Vertical Integration*** - Continent believes that the vertical integration of its operations enables it to identify and respond to market trends, maintain rigorous product quality standards and closely monitor the distribution of its products.

- ***Recognized Brand Names*** - Continent intends to enhance the level of recognition of the POPi_{TM} and mini car_{TM} trademarks. The management of Continent believes that the promotion of the POPi and mini car concept will generate more customer traffic within its stores and, in addition to more sales revenues, will also assist in the recognition of the POPi_{TM} and mini car_{TM} brand names.

Growth Strategy

POPi Retail Store Expansion

Currently, Continent operates 16 POPi retail stores in Canada which are located in leased premises within regional shopping malls in the Provinces of British Columbia, Alberta, Saskatchewan and Ontario. The first POPi retail store in Canada opened in 1992. Continent made the strategic decision to proceed slowly with its initial expansion into Canada to enable management to study the preferences of the Canadian retail market Continent is now ready to launch its expansion program to increase its retail presence across Canada.

Continent expanded from one store in Vancouver, British Columbia in 1992 to 16 stores as of June 30, 1996. The following table sets forth, by provinces, the total number of stores opened during each of the periods as indicated:

Location	1992	1993	1994	1995	1996(1)
Canada	1	3	3	5	16

Note: (1) Includes stores opened through June 30, 1996

Site Selection. In selecting new retail store location, Continent typically looks for high traffic location ranging from 800 to 1,000 square feet within regional shopping malls. Continent's real estate department conducts extensive research of potential location within regional mall and bases its selection on the performance of other specialty retail stores, anchor tenant, size and location of the mall and surrounding demographics data. The real estate department primarily selects the store location in the higher traffic section based on the traffic pattern within the mall. Although Continent plans to open additional retail locations within regional malls, Continent is always evaluating alternative type of locations, i.e. downtown street locations. In addition, Continent plans to relocate or upgrade some of the stores opened prior to 1994 so that all shop space will be efficiently utilized.

New Store Economics. Continent's average set up cost for leasehold improvements, furniture and fixtures for stores opened in fiscal 1996 was approximately $60,000 per store, prior to giving effect to any landlord's tenant inducements. Continent's real estate and construction

department typically supervises the whole construction process to make sure all works are done according to specification and requirements. POPi retail stores have typically achieved profitability at the operating level within the first quarter of operation, however, there can be no assurance the new stores will continue to achieve the same levels of profitability.

Manufacturing and Wholesaling

Continent is currently in the final stage of negotiation with a worldwide entertainment corporation to obtain a license to manufacture and market children's apparel in Canada for one of their household brandnames. After the execution of the above licensing agreement, Continent will wholesale the licensed products to POPi retail outlets, department stores and independent boutiques across Canada.

Market Description

The retail sector in Canada has undergone significant restructuring during the past five years resulting in the closure and bankruptcy of many stores. However, recent economic indicators have demonstrated some positive developments in this sector.

Children's clothing industry is different and more attractive than the general clothing retail industry in a few ways. Firstly, children's clothing is replaced more often than adult clothing because children from newborn to eight years of age grow at a rate which requires new clothing every four to six months on the average. In addition, children's clothing tends to be less susceptible to fashion trends or shifts in consumer tastes than adult clothing, resulting in a longer shelf-life. However, the children's clothing consumer is becoming more sophisticated. The designing of children's fashion and the use of high quality workmanship and natural fibers are becoming competitive factors within the industry.

Marketing and Promotion

The primary objective of Continent's marketing activities is to enhance the brand name recognition of POPi$_{TM}$ and mini car$_{TM}$ labeled products in order to strengthen Continent's competitive position in the market and to reduce the cyclical effects of the retail industry. Continent believes that this approach has been instrumental in enabling its retail locations to expand into new markets and to successfully introduce new products into its existing outlets. Continent's advertising and promotional activities include newspaper advertisements, television commercials and the distribution of seasonal catalogues.

In addition, Continent makes extensive use of the "POPi Privilege Card" program for its privileged customers. POPi Privilege Cards are designed to create customer loyalty by providing a variety of benefits for their holders including sales discounts and previews of new products. Continent believes that POPi Privilege Card program helps to attract and maintain a stable group of core customers.

Continent is planning an joint promotional and advertising campaign with the Hong Kong and PRC POPi operations in October 1996. The purpose of this campaign is to promote and enhance the brand-name recognition of Continent's POPi$_{TM}$ and mini car$_{TM}$ labeled products. Such campaign would include, among other things, the direct mailing of catalogues, print advertisements and television commercials; also involves in regular joint promotion with many large multinational conglomerates.

Design and Merchandising

The management of Continent believes that, as children's wear consumers become more sophisticated, the design and style of children's wear will become an increasingly important factor in consumers' purchasing decisions. Continent believes that it is well positioned to benefit from that trend. The POPi_{TM} and mini car_{TM} collection, designed in Calgary, Alberta by the POPi European design team and supported by a Hong Kong product development and production centre, focus on style, comfort and durability.

The design team structures its activities around two seasonal product development cycles, producing 110 to 220 individual product styles each season. All Continent's products are made from high-quality, natural fiber fabrics, with the majority made from pure cotton. Continent's merchandising team works with the designers in developing an initial seasonal concept and in selecting colours. From the large number of individual styles produced, the merchandising teams select the colours and styles that are most suitable for their specific markets based on local trends, climate, merchandise and pricing plans. The merchandising teams may also assist in developing additional styles and colours to meet local market tastes and trends.

Information Systems and Technology

Continent has developed an integrated computer software system for use in its retail operations. The system's functions include order collation and issuing, inventory control, sales tracking, stock replenishment, POPi Privilege Card sales, raw material levels and the generation of regular sales information.

Each retail location in Canada is equipped with an electronic point-of-sale system which enables information such as date and location of sales, product category, size and colour to be recorded in detail. The sales data is conveyed to the head office and regional warehouse at the end of each day which enables shops to be restocked promptly, enabling the management to achieve the just-in-time inventory control thus minimizing inventory costs.

Management's Discussion and Analysis of Financial Results

Overview

The consolidated financial statements of Continent include Pocotex Holdings Limited, Unitex Garment Factory Limited and POPi Childrenswear Enterprises Inc., which were acquired effective December 7, 1995. On that date, through the issue of 21,787,125 common shares of Continent, the former shareholders of Pocotex acquired control of Continent and, therefore, the acquisition of Pocotex has been accounted for as a reverse take-over. As a result, the financial statements are issued in the name of Continent, but are considered a continuation of the financial statements of Pocotex. Pocotex is a holding company which owns the interest in the POPi_{TM} and mini car_{TM} trademarks, which are registered in Canada and are pending registration in the United States, and real estate where Unitex manufactures children's clothing in Canada and distributes such products to POPi Childrenswear and other retailers.

The operating results of Continent, prior to December 7, 1995, reflect income from rent charged to Unitex and costs relating primarily to mortgage interest, depreciation of fixed assets, amortization of trademarks, and general and administrative costs associates with the ownership of the trademarks and real estate.

Results of Operation

The results for the five months ended December 31, 1995 included revenue from five retail stores in Western Canada, which generated sales revenue of $181,012 for the twenty-four day period from December 7, 1995 to December 31, 1995. Retail sales generated gross margins, after store expenses, of $108,168 equating to 59.8% of sales. Expenses for the five-month period totaled $192,089 which includes $77,374 for depreciation of fixed asset and amortization of trademarks. The expenses in this period were high as infrastructure was established for the retail expansion and consulting and traveling increased significantly during the period.

Management's Responsibility for Financial Reporting

The management of Continent is responsible for the preparation, content and integrity of the accompanying consolidated financial statements and all other financial information contained in the Annual Report. The financial statements were prepared in accordance with accounting principles generally accepted in Canada. The financial statements necessarily include amounts that are based on the best estimates and judgments of management. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The management of Continent has established and maintains a system of internal controls that provides reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, Continent is in compliance with all applicable laws and that the financial records are reliable for preparing financial statements.

The Board of Directors oversees management's responsibility for financial reporting through its Audit Committee.

Continent's Annual Report is discussed and reviewed by the Audit Committee with management and the external auditors before it is presented to the Board of Directors for approval. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

Consolidated financial statements have been audited by Deloitte & Touche, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Deloitte & Touche has full and free access to the Audit Committee.

Board of Directors
(as of December 31, 1995)

Larry Yuen

Alex Yuen

Stephen Yuen

Francis Yuen

Kevin Wong

Doris Wong

Dave Burroughs

Dave Badyk

Executive Officers
(as of December 31, 1995)

Larry Yuen
Chief Executive Officer

Alex Yuen
Vice President, Administration and Operations

Stephen Yuen
Vice President, Development

Francis Yuen
Vice President, Finance

Kevin Wong
Vice President, Management Information Systems

Dave Lam
Vice President, Retail Marketing

Auditors

Deloitte & Touche
Suite 1400, BCE Place
181 Bay Street
Toronto, ON M5J 2V1

Legal Counsel

Ogilvie and Company
1600 Canada Place
407 2nd Street SW
Calgary, Alberta T2P 2Y3

Common Shares

Common shares are listed and posted for trading on The Alberta Stock Exchange

Stock Symbol: CGP

Registra and Transfer Agent

Montreal Trust
600 - 530 8 Avenue SW
Calgary, Alberta T2P 3S8

Annual Shareholders' Meeting

Metropolitan Centre
333 - 4 Avenue SW
Calgary, Alberta T2P 2Y3

About this Report

Copies of this report are available from:

Continent Group Inc.
5716 Burbank Cresent SE
Calgary, Alberta T2H 1Z6

Consolidated Financial Statements of

CONTINENT GROUP INC.

December 31, 1995 and July 31, 1995

Deloitte &
Touche

Chartered Accountants
BCE Place
181 Bay Street
Suite 1400
Toronto, Ontario M5J 2V1

Telephone: (416) 601-6150
Telecopier: (416) 601-6151

Auditors' Report

To the Shareholders of
Continent Group Inc.

We have audited the consolidated balance sheet of Continent Group Inc. as at December 31, 1995 and the consolidated statements of loss and deficit and of changes in financial position for the period from August 1, 1995 to December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and the results of its operations and the changes in its financial position for the period from August 1, 1995 to December 31, 1995 in accordance with generally accepted accounting principles.

The prior year's comparative figures were reported on without reservation by another auditor on December 19, 1995.

Deloitte & Touche

Chartered Accountants

Toronto, Ontario
March 20, 1996

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CONTINENT GROUP INC.
Consolidated Balance Sheets

	December 31, 1995	July 31, 1995
ASSETS		
CURRENT		
Cash	$ 189,398	$ 17,681
Accounts receivable	133,950	1,282
Inventories (Note 4)	865,489	-
Prepaid expenses and other current assets	63,059	483
	1,251,896	19,446
DUE FROM AFFILIATED COMPANY (Note 10)	-	20,413
DUE FROM SHAREHOLDERS (Note 10)	-	60,000
DEFERRED INCOME TAXES (Note 9)	26,062	-
FIXED ASSETS (Note 5)	1,071,152	747,065
TRADEMARKS (Note 6)	3,372,485	3,446,051
DEFERRED SHARE ISSUE COSTS	153,327	-
	$ 5,874,922	$ 4,292,975
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 183,544	$ 4,700
Income taxes payable (Note 9)	121,852	-
Mortgage payable (Note 7)	7,285	6,142
Due to shareholders (Note 10)	62,780	-
	375,461	10,842
MORTGAGE PAYABLE (Note 7)	336,003	339,742
DUE TO AFFILIATED COMPANY (Note 10)	21,473	-
DUE TO SHAREHOLDERS (Note 10)	-	51,000
	732,937	401,584
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	5,265,664	3,959,142
Deficit	(123,679)	(67,751)
	5,141,985	3,891,391
	$ 5,874,922	$ 4,292,975

APPROVED BY THE BOARD

.... Director
LARRY YUEN

.... Director
DAVE BURROUGHS

CONTINENT GROUP INC.
Consolidated Statements of Loss and Deficit

	5 months ended December 31, 1995	12 months ended July 31, 1995
SALES	$ 181,012	$ -
COST OF GOODS SOLD	36,573	-
STORE EXPENSES	36,271	-
GROSS PROFIT	108,168	-
OTHER INCOME (Note 10)	20,789	71,094
	128,957	71,094
EXPENSES		
Depreciation and amortization of fixed assets	3,808	3,615
Amortization of trademarks	73,566	63,411
General and administrative	103,264	20,555
Interest on long-term debt	11,451	26,182
	192,089	119,635
LOSS BEFORE INCOME TAXES	(63,132)	(48,541)
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 9)		
Current	18,858	-
Deferred	(26,062)	-
	(7,204)	-
NET LOSS FOR THE PERIOD	(55,928)	(48,541)
DEFICIT, BEGINNING OF PERIOD	(67,751)	(19,210)
DEFICIT, END OF PERIOD	$ (123,679)	$ (67,751)
LOSS PER SHARE	$ (0.01)	$ (1.22)

CONTINENT GROUP INC.
Consolidated Statements of Changes in Financial Position

	5 months ended December 31, 1995	12 months ended July 31, 1995
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss for the period	$ (55,928)	$ (48,541)
Item not requiring cash		
Depreciation and amortization	77,374	67,026
Deferred income taxes	(26,062)	-
	(4,616)	18,485
Changes in non-cash working capital (Note 11)	(132,977)	(49,842)
	(137,593)	(31,357)
FINANCING		
Issuance of common shares	1,306,522	3,949,142
Mortgage principal reduction	(2,596)	(6,134)
Deferred share issue costs	(130,314)	-
Increase (decrease) in due to shareholders	436,582	(448,152)
Increase in due to affiliated company	-	(50,806)
	1,610,194	3,545,662
INVESTING		
Acquisition of businesses, net of cash acquired (Note 3)	(1,220,703)	-
Purchase of trademarks	-	(3,510,000)
Purchase of fixed assets	(80,181)	-
Trademark registration fees recovered	-	7,072
	(1,300,884)	(3,502,928)
NET CHANGE IN CASH FOR THE PERIOD	171,717	11,377
CASH, BEGINNING OF PERIOD	17,681	6,304
CASH, END OF PERIOD	$ 189,398	$ 17,681

1. DESCRIPTION OF BUSINESS

Continent Group Inc. ("Continent" or "the Company") was incorporated under the name Global Star Corporation pursuant to the provisions of the Business Corporation Act (Alberta) on February 17, 1995. The Company changed its name to Continent Group Inc. on March 8, 1995, removed its private company restrictions on April 26, 1995, and on July 28, 1995 its common shares were listed for trading on the junior capital pool board of the Alberta Stock Exchange.

The Company had not conducted any operations until December 7, 1995, when it acquired Pocotex Holdings Limited ("Pocotex Canada"), POPi Childrenswear Enterprises Inc. ("POPi Childrenswear (Canada)") and Unitex Garment Factory Ltd. ("Unitex"), three companies incorporated in the Province of British Columbia and registered as extraprovincial corporations in Alberta.

Pocotex Canada, POPi Childrenswear (Canada) and Unitex were under common control at the time of the acquisition. These companies' businesses are the manufacturing, importation, wholesale and retail sales of children's clothing in Canada. Continent and its subsidiaries are presently economically dependent upon Wing Luen, a Hong Kong-based garment manufacturer and principal supplier of inventory. The controlling shareholders of Wing Luen are also shareholders of the Company and are related to the shareholder group that exercises effective control of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of Continent, Pocotex Canada, POPi Childrenswear (Canada) and Unitex. Continent acquired Pocotex Canada on December 7, 1995 through the issue of 21,787,125 common shares with the result that the former shareholders of Pocotex acquired control of Continent. In accordance with generally accepted accounting principles, this business combination has been accounted for as a reverse take-over as though Pocotex acquired Continent, although legally Continent is regarded as the parent company. As a result, the financial statements are issued under the name Continent Group Inc. but are considered a continuation of the financial statements of Pocotex. Pocotex's previous fiscal year end was July 31, 1995.

Since, for accounting purposes, Pocotex is considered to be the acquiror, the net assets of Pocotex are included in the consolidated balance sheet at their book values. The net assets of Continent have been included after adjustments to reflect their fair market value at the date of acquisition, which was also the book value at that date.

As described in Note 3, on December 7, 1995, Continent also acquired POPi Childrenswear (Canada) and Unitex, companies associated with Pocotex Canada through common control, and the consolidated financial statements account for these subsidiaries effective from that date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and trademarks

Fixed assets and trademarks are stated at the lower of cost less accumulated depreciation and amortization and net recoverable amount. Depreciation and amortization are provided over their estimated useful lives at the following rates:

Buildings	-	10% declining balance
Furniture and fixtures	-	20% declining-balance
Office equipment	-	20-30% declining-balance
Manufacturing equipment	-	20% declining-balance
Leasehold improvements	-	straight-line over the term of the lease
Trademarks	-	straight-line over the term of the registration period

Inventories

Finished goods are stated at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis. Raw materials are stated at the lower of cost and replacement cost.

Deferred share issue costs

Deferred share issue costs consist of legal and professional fees with respect to a proposed public offering (see Note 13). These costs have been deferred and will be recorded as a reduction of the share capital raised on successful completion of the proposed public offering. In the event that such public offering is unsuccessful, these costs will be written off.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet dates. Revenue and expenses items are translated at the average exchange rate prevailing when they were earned or incurred. Gains or losses from foreign exchange are included in the statement of income.

3. BUSINESS ACQUISITIONS

(a) Acquisition of Pocotex

As described in Note 1, on December 7, 1995, Continent acquired 100% of the outstanding shares of Pocotex Canada by issuing 21,787,125 common shares. As a result of this transaction, the former shareholders of Pocotex Canada acquired control of Continent. The financial statements are therefore issued under the name "Continent Group Inc." but are considered a continuation of the financial statements of Pocotex Canada. The net assets of Continent are included at their book values, which are also their fair values on December 7, 1995.

3. BUSINESS ACQUISITIONS (continued)

(a) Acquisition of Pocotex (continued)

The net assets of Continent acquired by Pocotex Canada on this transaction were:

Cash	$ 77,470
Accounts receivable and other current assets	30,784
Deferred share issue costs	23,013
Fixed assets	34,040
	$ 165,307
Current liabilities	(48,014)
Net assets	$ 117,293
Consideration given:	
Ascribed value of shares of Continent acquired by shareholders of the Pocotex Canada	$ 94,280

(b) Acquisitions of POPi Childrenswear (Canada) and Unitex

On December 7, 1995, Continent acquired 100% of the outstanding common shares of POPi Childrenswear (Canada) for consideration of $67,023 which was financed through the issuance of 1,500,000 common shares. Continent also acquired 100% of the outstanding common shares of Unitex for consideration of $1,122,206, which was financed through the issuance of 6,224,925 common shares. A summary of the fair values of the assets acquired and liabilities assumed (which are also their book values) is as follows:

	POPi Childrenswear (Canada)	Unitex
Assets acquired		
Cash	$ -	$ 13,357
Accounts receivable	70,940	128,738
Inventories	264,650	786,340
Prepaid expenses and other current assets	32,622	-
Due from shareholders	-	519,830
Fixed assets	150,493	63,181
	518,705	1,511,446
Liabilities assumed		
Bank overdraft	5,008	-
Accounts payable and accrued liabilities	284,100	293,793
Due to shareholders	155,028	-
Income taxes payable	7,546	95,447
	451,682	389,240
Net assets acquired	$ 67,023	$ 1,122,206

4. INVENTORIES

	December 31, 1995	July 31, 1995
Finished goods in Canada	$ 145,864	$ -
Finished goods in Hong Kong	698,000	-
Raw materials	21,625	-
	$ 865,489	$ -

5. FIXED ASSETS

	December 31, 1995		July 31, 1995	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land	$ 574,130	$ -	$ 574,130	$ -
Buildings	177,000	4,521	177,000	4,065
Furniture and fixtures	38,600	839	-	-
Office equipment	49,992	784	-	-
Manufacturing equipment	32,351	864	-	-
Leasehold improvements	206,953	866	-	-
	1,079,026	$ 7,874	751,130	$ 4,065
Less accumulated depreciation and amortization	7,874		4,065	
Net book value	$ 1,071,152		$ 747,065	

6. TRADEMARKS

	December 31, 1995	July 31, 1995
Trademarks	$ 3,510,000	$ 3,510,000
Less accumulated amortization	(137,515)	(63,949)
	$ 3,372,485	$ 3,446,051

Pursuant to an agreement dated March 20, 1995, the Company acquired certain trademarks for exclusive use in Canada and the United States of a line of children's clothing and the name to be used for retail stores for cash consideration of $3,510,000. These trademarks were registered in Canada between August 1994 and March 1995 for a period of fifteen years and expire between August 2009 and March 2010. Since there have been no sales to date made in the United States, these trademarks have not been registered but applications have been filed in the United States.

7. MORTGAGE PAYABLE

	December 31, 1995	July 31, 1995
Mortgage payable, secured by land and building	$ 343,288	$ 345,884
Less due within one year	7,285	6,142
Non current portion	$ 336,003	$ 339,742

The original mortgage was due on October 30, 1995, bearing interest at 7.75% per annum, payable in monthly blended instalments of $2,693. The mortgage was renewed on November 1, 1995 for 6 months, bearing interest at 8.75% per annum, payable in monthly blended instalments of $2,854, and further renewed for one year, due on April 1, 1997, bearing interest at 7.50% per annum, payable in monthly blended instalments of $2,854.

8. SHARE CAPITAL

Authorized

An unlimited number of common and preferred shares

Issued and fully paid

	Common Shares	
	Number	Amount
Issued on incorporation of Continent on February 17, 1995	1	$ 1
Issued for cash during the period (net of issue costs)	3,499,999	200,802
Issued on exercise of options	100,000	10,000
	3,600,000	210,803
Issued on acquisition of Pocotex Canada	21,787,125	117,293
Issued on acquisition of Unitex	6,224,925	1,122,206
Issued on acquisition of POPi Childrenswear (Canada)	1,500,000	67,023
Legal paid-up capital at December 31, 1995	33,112,050	1,517,325
Increase of share capital as a result of reverse take-over accounting (Note 2)	-	3,748,339
Balance, December 31, 1995	33,112,050	$ 5,265,664

For financial reporting purposes, the acquisition of Pocotex Canada was accounted for as a reverse take-over. Accordingly, the share capital in the consolidated balance sheet at July 31, 1995 and July 31, 1994 is the share capital of Pocotex Canada of $3,959,142. The share capital in the consolidated balance sheet at December 31, 1995 is the aggregate of the share capital of Pocotex Canada of $3,959,142 plus the amount determined to be the fair market value (which in this case equals net book value) of Continent at the time of the reverse take-over transaction on December 7, 1995 of $210,803, plus the fair market value (also equalling net book value) of Unitex of $1,122,206 and POPi Childrenswear (Canada) of $67,023 at the time of acquisition of these subsidiaries, also on December 7, 1995.

8. SHARE CAPITAL (continued)

Transactions since inception in the share capital of Pocotex Canada were:

	Common Shares	
	Number	Amount
Issued for cash on incorporation on September 6, 1991 and at July 31, 1994	10,000	$ 10,000
Issued for cash on March 27, 1995	79,775	3,509,990
Issued on conversion of debt on March 27, 1995	9,318	439,152
Balance, July 31, 1995 and December 31, 1995	99,093	$ 3,959,142

Options

On April 27, 1995, the Company granted 295,000 options to certain directors to purchase common shares at a price of $0.10 per share. These options expire on April 27, 2000. On June 29, 1995, the Company granted 200,000 options to the agent of its initial public offering to purchase common shares at a price of $0.10 per share, expiring on January 28, 1997. On August 14, 1995, 100,000 of these options were exercised.

As at December 31, 1995, outstanding options are as follows:

Date of Expiry	Number of Options Outstanding on December 31, 1995	Exercise Price
January 28, 1997	100,000	$ 0.10
April 27, 2000	295,000	0.10

Loss per share

Loss per share is based on the weighted average number of common shares outstanding during the period (5 months ended December 31, 1995 - 6,864,043, 12 months ended July 31, 1995 - 39,698 (Pocotex Canada)).

9. INCOME TAXES

The Company's provision for income taxes (including its subsidiaries), compared to combined statutory rates, is summarized as follows:

	December 31, 1995	July 31, 1995
Loss before income taxes	$ (63,132)	$ (48,541)
Statutory tax rate	46%	26%
Recovery based on statutory rates	$ (29,040)	$ (11,164)
Increase (decrease) resulting from:		
Timing differences for which no deferred taxes have been recognized	546	15,416
Tax benefits of losses not recognized (tax benefits utilized)	21,290	(4,252)
Recovery of income taxes	$ (7,204)	$ -

The Company and its subsidiaries have non-capital losses carried forward amounting to $42,000 expiring in 2002, for which the potential future income tax benefits have not been recognized.

As well, the Company and its subsidiaries have carried forward $111,000 in timing differences between their accounting income and taxable income. The potential future income tax benefits relating to these timing differences have not been recognized.

10. RELATED PARTY TRANSACTIONS

Related party transactions prior to the acquisitions of Pocotex Canada, POPi Childrenswear (Canada) and Unitex on December 7, 1995 are as follows:

Included in other income is rental income of $20,789 which Pocotex Canada received from Unitex for the five months ended December 31, 1995 prior to its acquisition by Continent (year ended July 31, 1995 - $70,598).

At December 7, 1995, an interest-free loan of $17,559 (July 31, 1995 - $20,413) was due from Unitex to Pocotex Canada. The loan has no specific terms of repayment.

The amount of $21,473 due to affiliated companies at December 31, 1995 is due to POPi Childrenswear Enterprises (HK) Limited, for expenses incurred on the Company's behalf. The controlling shareholders of POPi Childrenswear Enterprises (HK) Limited are also shareholders of the Company and are related to the shareholders group that exercises effective control of the Company.

10. RELATED PARTY TRANSACTIONS (continued)

Prior to July 31, 1995, Pocotex Canada borrowed $107,986, interest free, from POPi Childrenswear (Canada). The loan was repaid before July 31, 1995.

The amount of $62,780 due to shareholders (July 31, 1995 - $51,000) is non-interest bearing and without specific repayment terms.

There were no related party transactions after the acquisition on December 7, 1995 of Pocotex Canada, POPi Childrenswear (Canada) and Unitex up to December 31, 1995.

11. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	5 months ended December 31, 1995	12 months ended July 31, 1995
Accounts receivable	$ (43,822)	$ (1,203)
Inventories	36,593	-
Prepaid expenses and other current assets	(6,355)	(483)
Accounts payable and accrued liabilities	(138,252)	(48,156)
Income taxes payable	18,859	-
	$ (132,977)	$ (49,842)

12. COMMITMENT

Leases

At the end of December 31, 1995, the Company has various office and store rental lease agreements expiring at various dates. Future minimum lease payments will aggregate $1,399,200 over the next five years as follows:

1996	**$ 297,900**
1997	**319,300**
1998	**324,100**
1999	**253,600**
2000 and thereafter	**204,300**
	$ 1,339,200

12. COMMITMENT (continued)

Letters of intent

On February 7, 1996, the Company signed letters of intent to acquire POPi Stores Ltd. ("POPi Stores") and POPi Childrenswear Enterprises Ltd. ("POPi Childrenswear (Hong Kong)), two Hong Kong Companies carrying on the distribution and sale of children's clothing in Hong Kong and the Peoples Republic of China ("PRC"). These two companies are related to Continent through common control. The proposed purchase price of POPi Stores and POPi Childrenswear (Hong Kong) is $7.5 million, to be satisfied by $3.2 million in cash and $4.3 million in common shares of Continent to be issued at the same price of the common shares of Continent to be offered pursuant to a proposed public offering. The acquisition of POPi Stores and POPi Childrenswear (Hong Kong) is conditional upon the successful completion of the offering.

13. SUBSEQUENT EVENTS

Options

On January 2, 1996, the remaining 100,000 options granted to the Company's agent on its initial public offering and 215,000 of options granted to certain directors were exercised for $31,500.

On February 16, 1996, 3,180,000 options were granted to certain shareholders of the Company to purchase the Company's common shares at $1.20 per share. These options expire on February 15, 2001.

Private placement

On January 16, 1996 and February 13, 1996, the Company completed a private placement in two stages, and issued 1,351,896 common shares at $1.50 each, raising cash of $2,027,844.

Proposed public offering

The Company is in the process of preparing a preliminary prospectus, which it intends to file to qualify for a proposed public offering to finance the acquisition of the businesses referred to in Note 12.

14. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to the current period's presentation.